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SUBJECT: YEMEN HUNT LOOKING FOR DEAL ON BLOCK 18 EXTENSION,
BUT ROYG DOOR REMAINS CLOSED

REF: SANAA 966

Classified By: Ambassador Thomas C. Krajewski for reasons 1.5 b and d.

1. (C) Summary. On May 7, Ambassador met with representatives of Yemen Hunt to discuss developments in the ongoing drama of the Block 18 extension (reftel). The ROYG officially confirmed the cancellation of its agreement with Hunt, endorsing Parliament's decision to explore a more profitable arrangement for Block 18. Hunt continues to prepare its case for litigation, suggesting that a high profile lawsuit may affect severely Yemen's plans for natural gas export. Although Hunt would still prefer to reach a deal with the ROYG, at this time it seems unlikely. End Summary.

ROYG Makes Rejection Official

2. (C) Ambassador met Wyndell Caviness, Vice President and General Manager of Yemen Hunt Oil, on May 7 to discuss recent developments in the Block 18 extension. Since the Ambassador's April 13 meeting with Hunt, Caviness conferred with presidential advisor Abdulkarim al-Iryani several times. For a brief period, said Caviness, President Saleh appeared ready to negotiate the extension anew, but discussions with the ROYG have broken down again. Caviness said that Yemen Hunt received an official letter from the Ministry of Oil (MOO) May 2, confirming that the Cabinet officially endorsed Parliament's decision not to grant the extension, canceling the 2003 decree in which it was originally endorsed by Cabinet.

Springtime in Paris, Hunt Looks to Sue

3. (C) Hunt is continuing forward with legal options against the ROYG, and has contracted the services of Baker Botts LLP, based in London, to handle their case. Jim McVail, Yemen Hunt's staff attorney, explained that any litigation would take place at the ICC in Paris, where it would be decided by international judges according to the laws of Yemen. Caviness believes that a high profile case is likely to harm prospects for the pending liquid natural gas (LNG) agreement (reftel). The perception that the ROYG violates agreements with foreign companies, said Caviness, may be enough to scare off necessary international financing for the project. There are additional rumors, continued Caviness, that Parliament may review the LNG deal as well, which is scheduled to be finalized in early July. As with the Hunt extension, some MPs believe the ROYG negotiated a bad deal at 3 million USD per metric ton, considering the world average at 7 million USD, and want to renegotiate.

4. (C) With its rejection of the extension, Parliament ordered MOO to contract a consultant to study from scratch the most profitable strategy to manage Block 18. According to Caviness, MOO has given the responsible committee between two and three weeks to accomplish this task. In his estimation, a study of this type should take as long as a year. With Hunt's agreement scheduled to terminate November 15, the ROYG is pressed for time. Caviness speculated that MOO, which has repeatedly supported the Hunt extension, may be offering Parliament an olive branch while leading them back to Hunt as the best possible choice given the constraints.

"We're trying to leave a door open"

5. (C) Summary. Despite Hunt's preparations for litigation, it is clear that the company would still prefer to strike a deal. "We're trying to leave a door open for Saleh," said Caviness, but for the time their overtures remain unrequited. McVail's ROYG contacts believe that the government is playing a game with Hunt, but it is not clear what the rules are or what they hope to win. It is possible that MOO's consultant will indicate that Hunt remains the best option for Block 18, while trying to squeeze a more advantageous deal from the company to placate Parliament. Nevertheless, the threat of litigation remains real and threatens to poison the investment climate as a whole. End summary.
Krajewski